



The Hong Kong Mortgage Corporation performed well in 2008 despite the once-in-a-lifetime financial crisis triggered by the US sub-prime mortgage problems. The Corporation has proven to be highly efficient and resilient, carrying out its important policy role of helping to maintain banking stability by purchasing loan assets from local banks. In doing so, the Corporation helps local financial institutions address their liquidity needs and the credit risk arising from their loan portfolios.

CHAIRMAN'S STATEMENT



Solid Performance in 2008

Despite the difficult economic environment, the Corporation was able to achieve another year of solid financial results after the record set in 2007. Profit after tax in 2008 was HK\$605 million. Although that is 18% lower than in 2007, it still compared well with the performance of the market. The return on shareholders' equity was 10.5%, and the capital-to-assets ratio was 8.7%. The Corporation declared a final dividend of HK\$250 million, the same as in each of the previous four years.

2008 was a landmark year in terms of business diversification for the Corporation. This applies to both local asset purchases and business initiatives in a number of selected overseas markets.

Asset Acquisition

Like many other economies, Hong Kong experienced liquidity and credit shortages as a result of the global financial crisis, giving the Corporation an opportunity to fulfil, yet again, its role of promoting banking stability by providing liquidity to banks by purchasing their loan assets.

The total asset purchase in 2008 reached a record of HK\$26 billion, with HK\$13.8 billion being assets from banks in Hong Kong and HK\$12.2 billion being overseas mortgage loans. The local purchases are a good illustration of the Corporation's key role in providing liquidity to the Hong Kong banking sector and helping them to manage their balance sheets.

In recognition of the important policy role played by the Corporation and the liquidity squeeze under

the current difficult market conditions, the HKSAR Government increased the size of the Revolving Credit Facility provided by the Exchange Fund to the Corporation from HK\$10 billion to HK\$30 billion. This is to ensure that the Corporation has sufficient back-up liquidity to perform its role of purchasing bank assets to reinforce banking stability in Hong Kong, even in adverse market conditions.

Mortgage Insurance

The Corporation's Mortgage Insurance Programme ("MIP") continued to provide an effective channel for promoting wider home ownership in Hong Kong. Given the difficulties faced by some homebuyers in obtaining mortgage loans, the Corporation enhanced the MIP by lowering the loan-to-value ("LTV") ratio threshold to 60% to encourage bank credit to flow to the mortgage market.

The Corporation received 21,477 applications under the MIP during 2008, up from 16,323 in 2007. The outstanding risk-in-force under the MIP

increased by about 63% to HK\$5.7 billion, compared with HK\$3.5 billion in 2007. The market penetration of the MIP increased to 16% for 2008, compared with 12% for 2007.

In addition to the local insurance business, the Corporation has also diversified into Malaysia by establishing a joint venture company in partnership with Cagamas Holdings Berhad. In September the joint venture launched the Mortgage Guarantee Programme to cover conventional mortgage loans as well as Islamic mortgage loans originated by banks in Malaysia. The joint venture in Malaysia will provide the HKMC with more insight and experience for the development of Islamic finance in Malaysia, Hong Kong and elsewhere.

Debt Issuance

The Corporation issued a record total of HK\$24.4 billion of debt securities in 2008. For the eighth year in a row, the HKMC is the most active corporate debt issuer in the Hong Kong dollar market.

The Corporation continued to play a very important role in promoting the development of the local bond market and helped to reinforce Hong Kong's position as an international financial centre. The Corporation's total amount of outstanding debt and mortgage-backed securities issued stood at HK\$46 billion on 31 December.

Outlook for 2009

2009 will be very challenging, given the disruptive and wide-ranging impact of the financial crisis on the global economy and financial markets. I am nevertheless confident that the Corporation will be able to continue to meet its objectives of contributing to banking stability, promoting home ownership and developing the debt and securitisation markets in Hong Kong, even in the face of unprecedented adverse financial market conditions.

The Corporation will focus on satisfying the needs of local financial institutions to offload loan assets in exchange for liquidity. While maintaining a strong

emphasis on risk management, the Corporation will also continue to improve its local product offering and promote its business model and risk-management approach in other jurisdictions such as Mainland China. This will contribute towards the healthy development of the Mainland mortgage market and also promote home ownership and a harmonious society.

Finally, I would like to thank my fellow Directors, the management and all staff of the Corporation for their dedicated work in 2008. I look forward to working with all of my colleagues in navigating through the uncertain and turbulent economic conditions to secure another successful year for the Corporation in 2009.



John C Tsang

Chairman